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FISCAL IMPACT STATEMENT

LS 7018

BILL NUMBER: HB 1256

NOTE PREPARED: Jan 5, 2010

BILL AMENDED:

SUBJECT: New Employer Tax Deduction.

FIRST AUTHOR: Rep. Espich

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides a two-year adjusted gross income deduction to corporations that are new Indiana employers.

Effective Date: January 1, 2010 (retroactive).

Explanation of State Expenditures: The Department of State Revenue (DOR) will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the new deduction. The DOR's current level of resources should be sufficient to implement the new deduction.

Explanation of State Revenues: *Summary* - This bill provides an Adjusted Gross Income (AGI) tax deduction to corporations for tax years 2010 and 2011, which will reduce revenue to the General Fund in FY 2011 and FY 2012. The impact is indeterminable.

Background Information - The bill provides an AGI tax deduction for two years to corporations that are new Indiana employers. "New Indiana employer" is defined in the bill as a corporation that:

- (1) initially begins doing business in Indiana after June 30, 2010;
- (2) employs in Indiana for a particular taxable year one or more full-time employees;
- (3) is not a successor to a corporation or a pass through entity, or a related member of a person, corporation, or pass through entity that engaged in doing business in Indiana before the corporation began doing business in Indiana; and
- (4) did not acquire any part of the business of a person, corporation, or entity that engaged in doing business in Indiana before the corporation began doing business in Indiana.

The tax deduction is equal to 66% of the corporation's AGI before the corporation's second full taxable year of operation, and 33% of the corporation's AGI in the taxable year that follows the corporation's first full taxable year of operation.

The Indiana Department of Workforce Development reports that for CY 2005 through CY 2008, an average of about 12,000 new transaction records were created for Unemployment Insurance Tax purposes. This number is a close representation of new employers in Indiana.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the new deduction for corporate taxpayers who are new Indiana employers will decrease taxable income, counties imposing local option income taxes could potentially experience a decrease in revenue from these taxes.

State Agencies Affected: DOR.

Local Agencies Affected: Counties with local option income taxes.

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